

AGENDA

AUDIT COMMITTEE MEETING

Date: Wednesday, 11 March 2020

Time: 7.00pm

Venue: Committee Room, Swale House, East Street, Sittingbourne, Kent, ME10 3HT

Membership:

Councillors Derek Carnell, Simon Clark (Chairman), Simon Fowle, James Hall (Vice-Chairman), Ann Hampshire, Denise Knights, Peter Macdonald, Peter Marchington and Julian Saunders.

Quorum = 3

Pages

1. Emergency Evacuation Procedure

The Chairman will advise the meeting of the evacuation procedures to follow in the event of an emergency. This is particularly important for visitors and members of the public who will be unfamiliar with the building and procedures.

The Chairman will inform the meeting whether there is a planned evacuation drill due to take place, what the alarm sounds like (i.e. ringing bells), where the closest emergency exit route is, and where the second closest emergency exit route is, in the event that the closest exit or route is blocked.

The Chairman will inform the meeting that:

(a) in the event of the alarm sounding, everybody must leave the building via the nearest safe available exit and gather at the Assembly points at the far side of the Car Park. Nobody must leave the assembly point until everybody can be accounted for and nobody must return to the building until the Chairman has informed them that it is safe to do so; and

(b) the lifts must not be used in the event of an evacuation.

Any officers present at the meeting will aid with the evacuation.

It is important that the Chairman is informed of any person attending who is disabled or unable to use the stairs, so that suitable arrangements may be made in the event of an emergency.

2. Apologies for Absence and Confirmation of Substitutes

3. Minutes

To approve the [Minutes](#) of the Meeting held on 21 January 2020 (Minute Nos. 463 - 470) as a correct record.

4. Declarations of Interest

Councillors should not act or take decisions in order to gain financial or other material benefits for themselves or their spouse, civil partner or person with whom they are living with as a spouse or civil partner. They must declare and resolve any interests and relationships.

The Chairman will ask Members if they have any interests to declare in respect of items on this agenda, under the following headings:

(a) Disclosable Pecuniary Interests (DPI) under the Localism Act 2011. The nature as well as the existence of any such interest must be declared. After declaring a DPI, the Member must leave the meeting and not take part in the discussion or vote. This applies even if there is provision for public speaking.

(b) Disclosable Non Pecuniary (DNPI) under the Code of Conduct adopted by the Council in May 2012. The nature as well as the existence of any such interest must be declared. After declaring a DNPI interest, the Member may stay, speak and vote on the matter.

Advice to Members: If any Councillor has any doubt about the existence or nature of any DPI or DNPI which he/she may have in any item on this agenda, he/she should seek advice from the Monitoring Officer, the Head of Legal or from other Solicitors in Legal Services as early as possible, and in advance of the Meeting.

Part B reports for decision by the Committee

5.	Internal Audit & Assurance Plan for 2020/21	3 - 6
6.	Annual Risk Management Report 2019-20	7 - 20
7.	Certification of Claims & Returns for 2018/19	21 - 32
8.	External Audit Plan for 2019/20	33 - 50

Issued on Tuesday, 3 March 2020

The reports included in Part I of this agenda can be made available in **alternative formats**. For further information about this service, or to arrange for special facilities to be provided at the meeting, **please contact DEMOCRATIC SERVICES on 01795 417330**. To find out more about the work of the Audit Committee, please visit www.swale.gov.uk

Audit Committee Meeting	Agenda Item 5
Meeting Date	11 March 2020
Report Title	Internal Audit & Assurance Plan 2020/21
Cabinet Member	Cllr Roger Truelove - Leader of the Council
SMT Lead	Nick Vickers – Chief Finance Officer
Head of Service	Rich Clarke – Head of Audit Partnership
Lead Officer	Rich Clarke – Head of Audit Partnership
Key Decision	No
Classification	Open
Recommendations	<ol style="list-style-type: none"> 1. Approve the Internal Audit & Assurance Plan for 2020/21 2. Note the Head of Audit Partnership’s view that the Partnership currently has sufficient resources to deliver the plan and a robust Head of Audit Opinion. 3. Note the Head of Audit Partnership’s assurance that the plan is compiled independently and without inappropriate influence from management.

1 Purpose of Report and Executive Summary

- 1.1 The **Public Sector Internal Audit Standards** (the “Standards”) require the audit Partnership to produce and publish a risk based plan, at least annually, to determine the priorities for the year. The plan must consider input from senior management and Members, and be aligned to the objectives and risks of the Council.
- 1.2 The purpose of this report is to set out the **annual assurance plan 2020/21** to Members. The report details how the plan is devised, the resources available through the Partnership and the specific audit activities and projects to be delivered over the course of the year.

2 Background

- 2.1 The Standards set out the requirements of the Chief Audit Executive (the Head of Audit Partnership fulfils this role for Swale Borough Council) that must be met when creating the audit plan. Specifically, Standard 2010:

2010 Planning

The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.

Interpretation:

To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organisation's strategies, key business objectives, associated risks and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls.

Public sector requirement

The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.

- 2.2 The Audit Committee needs to obtain assurance on the effectiveness of the control environment, governance and risk management arrangements. The principal source of this assurance is derived from the annual assurance plan.
- 2.3 Standards explicitly support that the plan is flexible and responsive to emerging and changing risks across the year. Therefore, like with the 2019/20 audit plan, the 2020/21 plan includes audit reviews that are **high** priority and those that are **medium** priority. By taking this approach we are able to achieve flexibility within the plan and ensure that the plan remains relevant throughout the year.

3 Proposals

- 3.1 The appendix sets out the proposed plan for 2020/21, including background details on how we compiled the plan and how we propose to manage its delivery. The proposal is for the Audit Committee to consider and approve the plan.
- 3.2 We confirm to Members that, although the plan has undergone broad consultation with management, it is compiled independently and without being subject to inappropriate influence.

4 Alternative Options

- 4.1 The Audit Committee as part of its terms of reference must retain oversight of the internal audit service and its activities. This includes the Committee's role to formally consider and approve the plan. The Council could decide that it does not want a programme of work for the audit service, however, this would go against professional Standards.

5 Consultation Undertaken or Proposed

- 5.1 We consult with Managers, Heads of Service and Directors throughout the year as we undertake our work, but also specifically as part of the audit planning process. The plan attached represents the collective views of management and the audit service.
- 5.2 The overall resource allocation between the partners is consistent with the collaboration agreement and discussed with the Shared Service Board.

6 Implications

The Council's internal control processes include operating an effective internal audit service. This plan aims to deliver that requirement and so support the Council's overall governance.

Issue	Implications
Corporate Plan	The audit plan supports all Council activities and the wider Corporate Plan in assisting the governance around its delivery.
Financial, and Property	The work programme set out in the plan is produced to be fulfilled within agreed resources for 2020/21.
Legal and Statutory	The Council is required by Regulation to operate an internal audit service, including agreeing a plan at least annually. Therefore, the Council must approve a plan to maintain regulatory conformance.
Crime & Disorder	No direct implications.
Environmental Sustainability	No direct implications.
Health/Wellbeing	No direct implications.
Risk Management and Health and Safety	The audit plan draws on the Council's risk management in considering the areas for audit examination. In turn, audit findings will provide feedback on the identification, management and controls operating within the risk management process.
Equality/Diversity	No direct implications.

Privacy and Data Protection	We collect and store information in the course of our audit work examining areas of the Council. We use that information in accordance with our collaboration agreement which, in turn, is in accordance with applicable laws and regulations.
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7 Appendices

7.1 The following documents are to be published with this report and form part of the report:

- Appendix I: Internal Audit & Assurance Plan 2020/21

8 Background Papers

The appendix includes reference to the Public Sector Internal Audit Standards (full document [at this link](#)). Further background papers, including detailed resource calculations, risk assessments and notes from consultation meetings can be made available on request.

Internal Audit & Assurance Plan 2020/21

Swale Borough Council



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Introduction

1. Our mission as an Internal Audit service is to enhance and protect organisational value. We achieve this by bringing a systematic and disciplined approach to evaluate and improve effectiveness of risk management, control and governance. We work within statutory rules drawn from the Accounts and Audit Regulations 2015 and the [Public Sector Internal Audit Standards](#) (the “Standards”).
2. In 2015 the Institute of Internal Audit (IIA) assessed us as working in full conformance with the Standards. We have kept full conformance since then, including through the major update to the Standards in 2017. The Chartered Institute of Public Finance and Accounting (CIPFA) won the contract to conduct the External Quality Assessment due in 2020. That work is underway. We will report findings to Members of this Committee at its next meeting in July.
3. To protect the independence and objectivity of our service, we work to an [Audit Charter](#). The *Charter* sets out the local context for audit, including granting right of access to systems, records and personnel. At this Council, the Audit Committee approved the Charter in November 2018.
4. The Standards set out demands for compiling and presenting a document to describe planned work for the year ahead. Specifically, our plan must set out:
 - Internal audit’s evaluation of and response to the risks facing the organisation.
 - How we consult with senior management and others.
 - How we have considered whether we have suitable resources to address the risks we identify.
 - How we will effectively use those resources to complete the plan.
5. Our plan includes assurance and other work, such as consultancy engagements. We can accept advisory work where it is the best way to support the Council. The *Audit Charter* sets out how we consider such engagements, including how we safeguard our independence.
6. We must also clarify that our audit plan cannot address all risks across the Council and represents our best use of the resources we have available. In approving the plan, the Committee recognises this limit. To that end, we constantly keep the plan under review to be live to risks issues as they emerge.

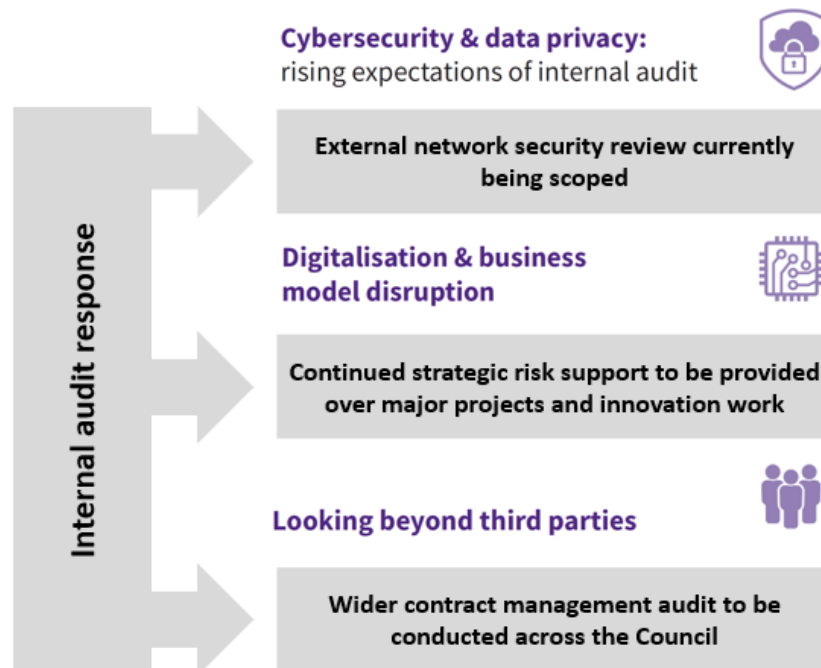
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Risk Assessments

7. The Standards direct us to begin our audit planning with a risk assessment. This assessment must consider internal and external risks, including those relevant to the sector or global risk issues. Our plan for 2020/21 represents our views now, but we will continue to reflect and consider our response as risks and priorities change across the year. We will report a specific update to Members midway through the year. We may also consult the Committee (or its Chair) on significant changes.

Global and Sector Risks

8. In considering global and sector risks we draw on various sources. These include updates provided by relevant professional bodies, such as the IIA and CIPFA. We also consult colleagues in local government audit both direct through groups such as London and Kent Audit Groups and through review of all other published audit plans in the South East.
9. These sources give us insight into the key issues facing local government and how other audit teams and business leaders are responding to future risk issues. To show our thinking on these wider risks we've highlighted below some of the issues discussed by the IIA in [Risk in Focus 2020](#):



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Audit Risk Review and Consultation

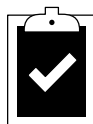
10. Beyond keeping an awareness of Sector and local risk issues, we conduct our own assessment. We consider all possible audit entities across the Council (the “audit universe”) on one specific risk:

What is the risk we offer a mistaken opinion because we don't understand the service?

11. As with a typical risk assessment there are two main parts to consider. The first: how important is the service to the Council's overall objectives and controls and how might errors impact our opinion. Here we consider:



Finance Risk: The value of funds flowing through the service. High value and high-volume services (such as Council Tax) represent a higher risk than low value services with regular and predictable costs and income.



Priority Risk: The strategic importance of the service in delivering Council priorities. For example, Planning and Climate Change will be higher risk owing to the direct link with the Council's objectives.

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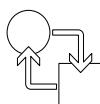


Support Service Risk: The extent interdependencies between Council departments. For example, many services rely on effective ICT.

12. The second part is the likelihood we might hold (or gain) a mistaken view of the service. Here we consider:



Oversight Risk: Considering where other agencies regulate or inspect the service. For example, Mid Kent Legal Services receive regular inspections from the Law Society to keep Lexcel accreditation and so have relatively low risk.



Change Risk: Considering the extent of change the service faces or has recently experienced. This might be voluntary (a restructure, for example) or imposed (like new legislation).



Audit Knowledge: What do we know about the service? This considers not just our last formal review, but any other information we have gathered from, for example, following up agreed actions. We also consider the currency of our knowledge, with an aim to conduct a full review in each service at least every five years if possible.



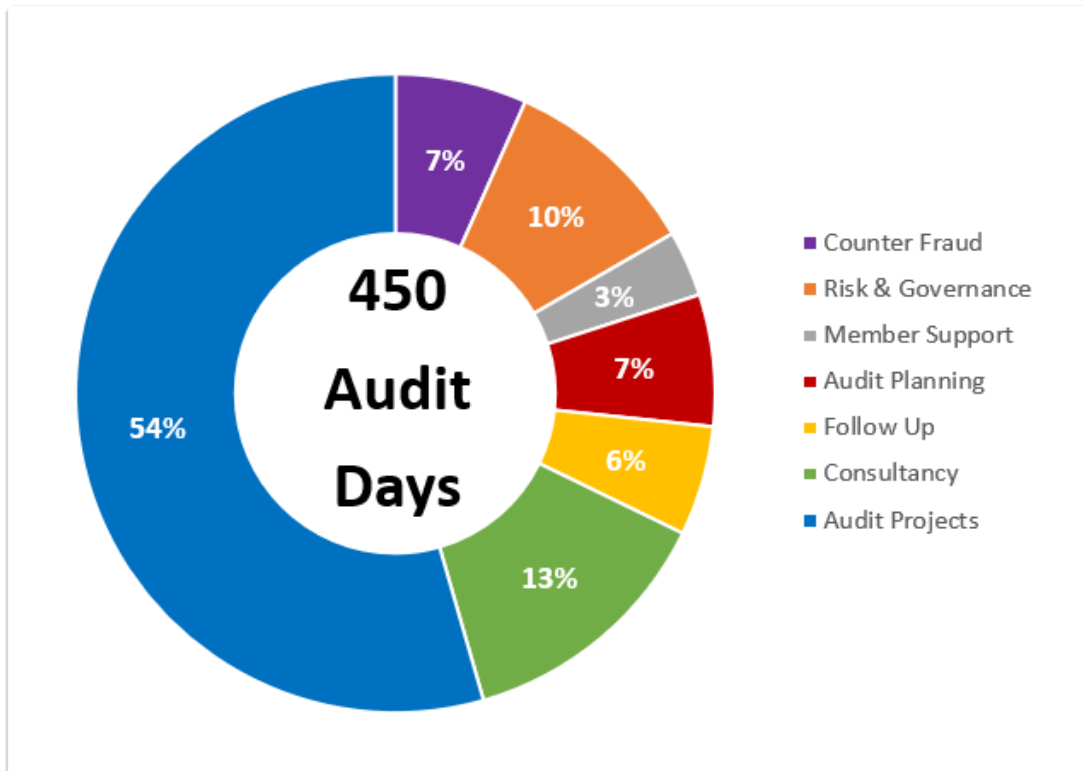
Fraud Risk: The susceptibility of the service to fraud loss. High volume services that deal directly with the public and handle cash, for example licensing, are higher risk.

13. The results of these various risk assessments provide a provisional audit plan. We then take this provisional plan out to consultation. We meet Mangers, Heads of Service and Strategic Management Team to get their perspective on our assessment and give us updates on their sections.
14. We set out the full audit universe and audit history in Appendix II.

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Resources

15. Having gained a perspective on the key issues for audit attention in the coming year we then consider the quantity and quality of our resources.
16. The Audit Partnership has 11.6 full time equivalent officers. To calculate the available resources for the year, we take the total available days and subtract various categories of non-working and non-audit time. Our planning estimate for 2020/21 shows **1,810** days across the partnership for the year available for inclusion in audit plans.
17. We then divide the total number of days between the 4 partnership authorities based on the proportions set out in our collaboration agreement. Swale contributes approximately 25%, which rounds to audit days of **450**.



18. The actual number of days allocated are set out below:

Audit Projects	245 days	Members Support	15 days
Consultancy	60 days	Risk & Governance	45 days
Follow-up	25 days	Counter Fraud	30 days
Audit Planning	30 days		

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19. Audit Standards require us to assess whether the resources available – in both quantity and quality – can fulfil our responsibilities. In that assessment we must consider:
 - Whether we had enough resource to complete our prior year plan.
 - How the size and complexity of the organisation has changed.
 - How the organisation’s risk appetite and profile have changed.
 - How the organisation’s control environment has changed, including how it has responded to our audit findings.
 - Whether there have been significant changes to professional standards.
20. Based on this assessment, we believe we have a sufficient quantity of resources to deliver the 2020/21 audit plan.
21. We must also consider the skills, expertise and experience of our team. We hold a variety of qualifications that help to ensure that we provide a high-quality service. These include CIPFA, Certified and Chartered Internal Auditors, a Chartered Accountant, a Certified Risk Manager and Accredited Counter Fraud Technicians. In addition, we are also supporting 2 apprentices through level 7 audit qualifications (equivalent to full Chartered status). This gives us a wealth of relevant technical expertise to undertake the various specialist areas identified on our audit plan.
22. We also have access to sources of specialist expertise through framework agreements with audit firms, which includes access to subject matter experts. While this access is less than in previous years (with Swale choosing to use some of these days to provide savings) access to specialist resources is still available.
23. Based on the above, we believe we also have skills and expertise to deliver the 2020/21 audit plan.

Proposed Audit & Assurance Work 2020/21

24. Our audit work comes in two distinct approaches; those that lead to assurance rating and those that do not. Members will be familiar with the assurance ratings that we issue upon concluding our work (see Appendix III for the definitions and different levels). However, we recognise circumstances where our work aims principally at supporting work in progress or providing advice where an assurance rating would not be suitable.
25. This recognition of the wider assurance that we provide means that our audit plan also includes the governance, risk and other advisory roles we fulfil.

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Audit & Assurance Plan 2020/21

26. Below we set out our audit engagements for the year ahead, along with an indicative objective for each review. We will agree the detailed objectives with the service as part of planning each review. Based on our risk assessment and consultations with management we have allocated a priority level to each of the audit projects:

HIGH PRIORITY: We will aim to deliver 100% of these projects during the year

MEDIUM PRIORITY: We aim to deliver more than 50% of these projects during the year

Project Title	Priority Rating	Proposed objective of the review
Contract Management	High	To review the Councils overall contract management arrangements
Leisure Services	High	To review the effectiveness of the Councils arrangements for monitoring the Leisure services contract
Electoral Registration	High	To review compliance of the electoral registration process with key guidelines
Rent Deposit Scheme	High	To review compliance with the criteria for awarding rent deposits and the processes for recovery of deposits
Rough Sleeper Service	High	To review the processes in place to guide the functions of the rough sleeper service
CCTV	High	To consider the new CCTV service and compliance with key guidelines
Bailiff Service*	High	To review the controls in place to administer enforcement cases in line with regulation and policies, including the collection and monitoring of income
IT Back-Up*	High	To review the adequacy of the Council's IT back-up and recovery procedures
Environmental Enforcement - Air Quality*	High	To review the controls and measures in place to support delivery of the low emission strategy

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Project Title	Priority Rating	Proposed objective of the review
Climate Change	Medium	To review the Council's response to Climate Change and to verify progress against agreed actions
Accounts Payable	Medium	To review the processes for the authorisation and payment of invoices
General Ledger	Medium	To review the Councils feeder and journals systems
Income Management	Medium	To review the processes for the billing and collection of income, including controls around cash receipts
Equalities	Medium	To review compliance with the Public Sector Equalities duties
Project Management	Medium	To review the Councils project management arrangements against best practice guidelines
Developer Income	Medium	To review arrangements for the collection and spending of income
Cemeteries	Medium	To consider overall operation of the service
Traffic Regulation Orders	Medium	To review the controls in place to ensure traffic regulation orders are implemented in line with Traffic Regulation Act 1984
IT Asset Management*	Medium	To review the controls in place to manage and safeguard IT assets
Pay & Display*	Medium	To review the controls in place over the collection, recording & monitoring of pay & display income
Planning Admin*	Medium	To review the processes in place to process and validate planning applications and to receive planning application income

27. Total days allocated to assurance projects: **245 days**

**Delivered via a shared service with Maidstone (and/or other partners)*

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28. The table below outlines key workstreams that we intend to undertake as part of the wider risk, governance and counter fraud support for the Council:

Proposed Assurance Non-Project Work 2020/21	145 days
<p>Risk & Governance</p> <ul style="list-style-type: none"> • Review and implementation of risk software • Regular monitoring and reporting to Senior Officers and Members • Refresh of the key risks aligned with the delivery of the new Council Plan • Training, briefings and advise to Officers and Members 	
<p>Counter Fraud</p> <ul style="list-style-type: none"> • General Policy and Advice, including Whistleblowing and Anti-Corruption • Continued development of the Council Fraud Risk Assessment to identify possible proactive counter fraud work • Incident specific advice, support and reactive investigation • Training, briefings and advice to Officers and Members 	
<p>Member Support</p> <ul style="list-style-type: none"> • Attendance and preparation for Audit Committee and other Members' meetings (including Chairman's briefings) • Developing and presenting Member briefings on governance issues 	
<p>Agreed Actions Follow Up</p> <ul style="list-style-type: none"> • Ensuring officers carry out actions as agreed • Reporting progress towards implementation to Senior Officers and Members 	
<p>Audit Planning</p> <ul style="list-style-type: none"> • Continued horizon scanning and review of audit plan risk assessment to ensure emerging risk issues are identified 	

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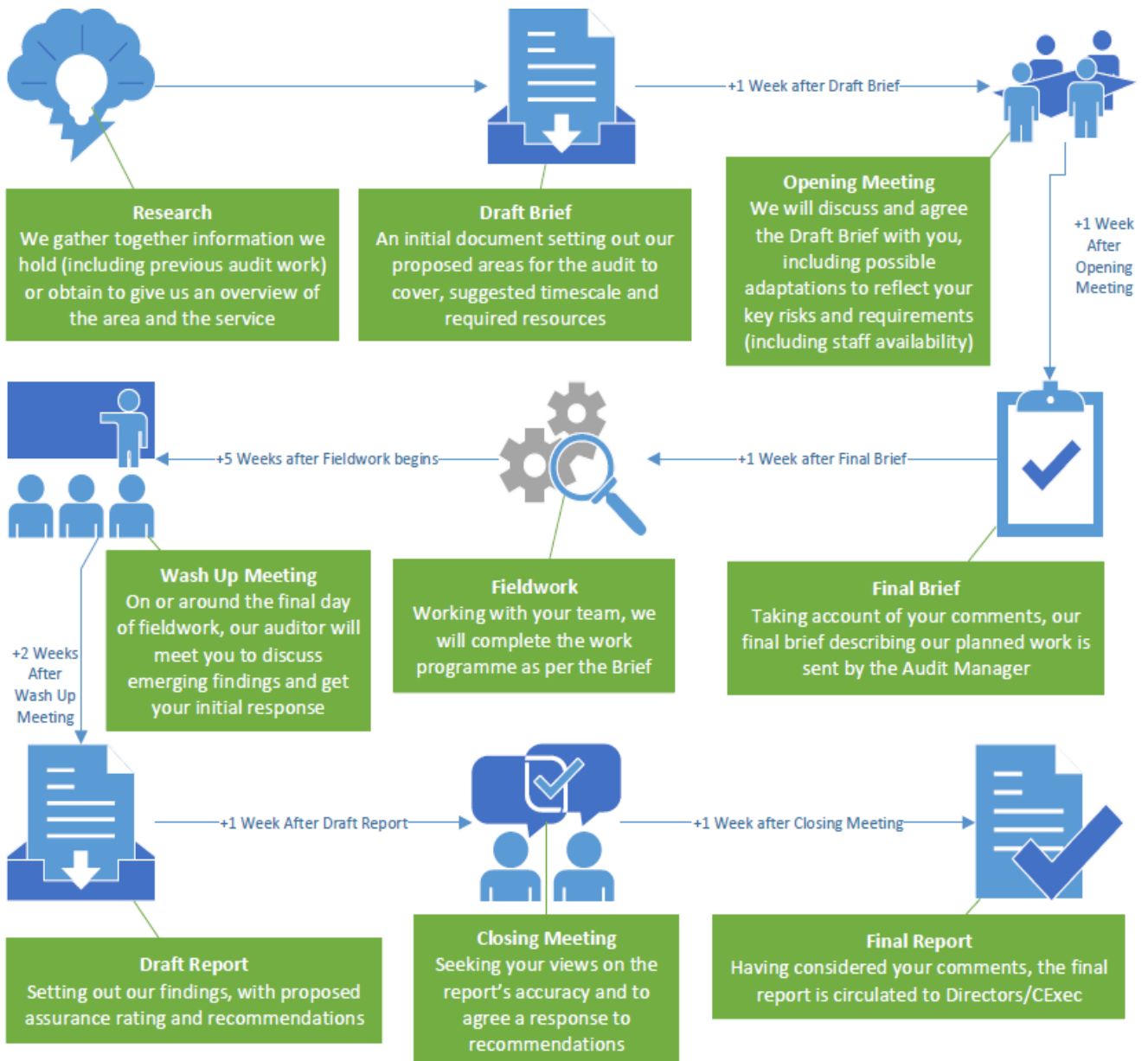
29. In addition to planned work, our plan must have flexibility to provide reactive or ad-hoc support. We have a pool of days available for the Council to draw on in such circumstances. We set out below the total days available as general consultancy:

Proposed consultancy 2020/21	60 days
<p>Consultancy</p> <ul style="list-style-type: none">• We aim to keep around 10% of audit days as a consultancy fund to provide general and extra advice to the Council• This will include attendance and contribution to officer groups, for instance procurement group and business continuity group• These days will also assist when we are required to expand to audit scopes to cover concerns or interests identified during an audit, effectively allow days to be used as contingency	

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Delivering the Audit & Assurance Plan

30. We work in full conformance with the Public Sector Internal Audit Standards. The illustration below shows the process we follow for 'typical' audit engagements.



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Overseeing Delivery

31. Throughout our work we undertake internal quality assessments and review. This includes specific management sign-off and checks on individual engagements in progress as well as periodic 'cold review' assessments. Through the latter process, we reflect on work completed to identify and take forward any learning to help us improve.
32. We also report progress on delivering the plan to this Committee part-way through the year. Internally, we monitor and report each month on various performance indicators detailing our progress. These updates are reported to the Strategic Management Team and Shared Services Board (with Nick Vickers - Chief Finance Officer - as Swale's representative).

Quality & Improvement Plan

33. Although in 2015 the IIA assessed us as fully conforming to the Standards, we have continued to challenge and update how we work. Through our internal assessments we have kept our full conformance with the Standards alongside being able to work more efficiently resulting in an increase in productive days by nearly 20% since 2015. This has all been without additional investment and only inflationary budget increases, meaning the 'cost per audit plan day' has fallen by almost 15% in real terms over the past 5 years.
34. We have been using Pentana Audit Management Software for nearly 2 years. As a service we have been paperless for over a decade, but Pentana has enabled us to deliver greater quality, consistency and efficiency in how we work. This is also visible during audit planning as we can manage and organise our risk assessments within a fully automated and flexible database of our entire audit universe.
35. For the year ahead our priority will be to address any matters arising from our EQA. Beyond those objectives our aim is to safeguard and standardise how we assess and improve our service in a full five-year plan looking ahead to our next external assessment in 2025. We will provide further details of this plan to Members alongside the EQA results in July.

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External Quality Assessment

36. Public Sector Internal Audit Standard 1312 demands we undergo an external assessment at least every five years. The IIA undertook our last assessment, in spring 2015, that reported Mid Kent Audit as fully conforming to the Standards. Members will already be aware that earlier in the year we commissioned CIPFA to conduct the EQA 2020 for the Audit Partnership.
37. That review is taking place across February and March 2020 and we are grateful to those Members who have contributed either by meeting our assessor or completing a survey. We expect the final report in late March and will report to Members alongside an action plan in July.

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Appendix I: Audit Universe

The “Audit Universe” is our running record of all services at the Council we might examine. The list below shows Swale specific entities on our current audit universe, followed by a record of audit history:

Service Area	Auditable Areas
SBC Building Control	Building Control Income Building Control
SBC Communications	Marketing Internal Communications Public Consultations Social Media Website
SBC Community Safety	Safeguarding Safety Partnerships CCTV & Monitoring Animal Welfare
SBC Contract Management	Contract Management Procurement & Commissioning Leisure Services
SBC Cultural Services	Tourism Support Community Support Public Health
SBC Customer Services	Complaint Handling Customer Services
SBC Democratic Services	Democracy
SBC Development Management	Pre-Application Planning Section 106 Income Conservation & Heritage Planning Enforcement Development Management
SBC Environmental Services	Environmental Enforcement Grounds Maintenance Cemeteries & Crematoria

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Service Area	Auditable Areas
SBC Finance	Budget Setting Budgetary Control Creditors (Accounts Payable) Debtors (Accounts Receivable) General Ledger Treasury Management Insurance
SBC Housing	Homelessness Lettings Home Improvement Grants Rent Deposit Scheme Leaseholders Health
SBC Licensing & Resilience	Business Continuity Emergency Planning Taxi Licensing Licensing
SBC Policy & Performance	Information Management Performance Management Project Management Corporate Governance Equalities Climate Emergency Response
SBC Property Services	Health & Safety Property Income Property Acquisition & Disposal Facilities Management
SBC Regeneration & Economic Development	Economic Development Community Support
SBC Revenues & Benefits	Council Tax Business Rates Compliance Housing Benefits
SBC Spatial & Strategic Planning	Strategic Planning
SBC Waste Management	Waste Collection Recycling
Non-MKS Shared Services	Environmental Health

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Service Area	Auditable Areas
Mid Kent HR	Absence Management Policy Compliance Recruitment Staff Performance Management Training & Development Workforce Planning Payroll & Expenses
Mid Kent Audit	Risk Management Counter Fraud
Mid Kent ICT	IT Asset Management IT Backup & Recovery Network Security IT Development Technical Support
Mid Kent Legal Services	Declarations of Interest Legal Services
Mid Kent Planning	Planning Administration Land Charges

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Appendix II: Audit History

Service Area	Audit Project	Audit Year	Audit Rating
SBC Community Safety	SBC11(14/15) - Safeguarding	2014/15	Weak
SBC Democratic Services	SBC01(14/15) - Members' Allowances	2014/15	Sound
SBC Finance	SBC07(14/15) - Income & Cash Collection	2014/15	N/A
SBC Finance	SBC15(14/15) - Accounts Payable	2014/15	Strong
SBC Finance	SBC05(14/15) - Treasury Management	2014/15	Strong
SBC Housing	SBC18(14/15) - Homelessness - Temporary Accommodation	2014/15	Sound
SBC Housing	SBC04(14/15) - Housing Allocations	2014/15	Sound
SBC Policy & Performance	SBC22(14/15) - Freedom of Information	2014/15	Sound
SBC Revenues & Benefits	SBC06(14/15) - Council Tax (Systems Audit)	2014/15	Strong
SBC Revenues & Benefits	SBC20(14/15) - Business Rates (Systems Audit)	2014/15	Strong
SBC Revenues & Benefits	SBC24(14/15) - Housing Benefits (System Audit)	2014/15	Weak
SBC Waste Management	SBC08(14/15) - Waste Collection Contract	2014/15	Strong
Non-MKS Shared Services	SBC13(14/15) - Cashless P&D Implementation	2014/15	Sound
Mid Kent Audit	SBC10(14/15) - Risk Management	2014/15	N/A
Mid Kent ICT	MBC06(14/15) - Computer Use Policy	2014/15	Sound
Mid Kent ICT	SBC09(14/15) - ICT Service Desk	2014/15	Weak
Mid Kent ICT	TWBC03(14/15) - Compliance with Computer Use Policy	2014/15	Sound
Mid Kent HR	MBC14(14/15) - Payroll	2014/15	Strong
SBC Communications	SBC/SR01(15/16) - Communication (Social Media)	2015/16	Strong
SBC Contract Management	SBC/CF04(15/16) - Procurement	2015/16	Sound

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Service Area	Audit Project	Audit Year	Audit Rating
SBC Customer Services	SBC/SR02(15/16) - Customer Services/CRM	2015/16	Strong
SBC Environmental Services	SBC/SR04(15/16) - Cemeteries	2015/16	Sound
SBC Finance	SBC/CF01(15/16) - Budget Setting	2015/16	Strong
SBC Finance	SBC/CF03(15/16) - Accounts Receivable	2015/16	Strong
SBC Housing	SBC/SR03(15/16) - Housing Services - Front of House	2015/16	Sound
SBC Policy & Performance	SBC/CG02(15/16) - Corporate Projects Review	2015/16	Sound
SBC Policy & Performance	SBC/CG04(15/16) - Performance Management	2015/16	Sound
SBC Policy & Performance	SBC/CG06(15/16) - Freedom of Information	2015/16	Sound
SBC Revenues & Benefits	SBC/CF05(15/16) - Business Rates	2015/16	Strong
SBC Revenues & Benefits	SBC/SR07(15/16) - Discretionary Payments	2015/16	Sound
Mid Kent HR	MKS/SR01(15/16) - Learning & Development	2015/16	Sound
Mid Kent ICT	MKS/SR02(15/16) - ICT Network Controls	2015/16	Strong
Mid Kent HR	MKS/CF01(15/16) - Payroll	2015/16	Strong
SBC Building Control	SBC-OR01(16-17) - Building Control	2016/17	Sound
SBC Community Safety	SBC-OR02(16-17) - CCTV	2016/17	Sound
SBC Contract Management	SBC-OR08(16-17) - Leisure Centre Contract	2016/17	Weak
SBC Customer Services	SBC-OR14(16-17) - Complaints	2016/17	Sound
SBC Democratic Services	SBC-CG02(16-17) - Members' Allowances	2016/17	Sound
SBC Democratic Services	SBC-OR05(16-17) - Elections: Postal Voting	2016/17	Sound
SBC Development Management	SBC-OR04(16-17) - Planning Enforcement	2016/17	Weak
SBC Development Management	SBC-OR13(16-17) - Section 106 Agreements	2016/17	Sound
SBC Environmental Services	SBC-OR06(16-17) - Environmental Response	2016/17	Strong

MID KENT AUDIT

Service Area	Audit Project	Audit Year	Audit Rating
SBC Environmental Services	SBC-OR07(16-17) - Grounds Maintenance	2016/17	Sound
SBC Finance	SBC-CF01(16-17) - Accounts Payable	2016/17	Strong
SBC Finance	SBC-CF02(16-17) - Bank Reconciliation	2016/17	Strong
SBC Finance	SBC-CF04(16-17) - General Ledger: Journals & Feeder Systems	2016/17	Strong
SBC Housing	SBC-OR12(16-17) - Rent Deposits	2016/17	Weak
SBC Licensing & Resilience	SBC-OR09(16-17) - Licensing	2016/17	Sound
SBC Policy & Performance	SBC-CG03(16-17) - Data Protection	2016/17	Sound
SBC Property Services	SBC-OR11(16-17) - Property Income	2016/17	Sound
SBC Revenues & Benefits	SBC-CF03(16-17) - Council Tax (Valuation, Liability & Billing)	2016/17	Strong
SBC Revenues & Benefits	SBC-CF05(16-17) - Housing Benefits	2016/17	Sound
Non-MKS Shared Services	MKS-OR04(16-17) - Residents' Parking	2016/17	Sound
Mid Kent ICT	MKS-CG01(16-17) - ICT Controls & Access	2016/17	Sound
Mid Kent HR	MKS-CF01(16-17) - Payroll	2016/17	Strong
SBC Community Safety	SBC-OR12(17-18) - Stray Dogs	2017/18	Sound
SBC Community Safety	SBC-CG03(17-18) - Safeguarding	2017/18	Strong
SBC Community Safety	SBC-OR03(17-18) - Community Safety	2017/18	Strong
SBC Community Safety	SBC-SR01(17-18) - Animal Licences	2017/18	N/A
SBC Cultural Services	SBC-OR10(17-18) - Sports Pitches, Pavilions and Community Hall	2017/18	Sound
SBC Cultural Services	SBC-SR02(17-18) - Community Grants	2017/18	N/A
SBC Development Management	SBC-OR08(17-18) - Pre-Application Planning Advice	2017/18	Sound
SBC Environmental Services	SBC-OR09(17-18) - Public Conveniences	2017/18	Sound
SBC Environmental Services	SBC-OR07(17-18) - Litter Enforcement	2017/18	Sound

MID KENT AUDIT

Service Area	Audit Project	Audit Year	Audit Rating
SBC Housing	SBC-OR06(17-18) - Landlord Complaints	2017/18	Sound
SBC Housing	SBC-CON01(17-18) - Homelessness Budget	2017/18	N/A
SBC Licensing & Resilience	SBC-CG01(17-18) - Business Continuity	2017/18	Sound
SBC Policy & Performance	SBC-OR13(17-18) - Transformation Programme	2017/18	Sound
SBC Policy & Performance	SBC-CG02(17-18) - Corporate Planning	2017/18	Strong
SBC Property Services	SBC-OR01(17-18) - Building Maintenance	2017/18	Sound
SBC Revenues & Benefits	SBC-CF01(17-18) - Business Rates	2017/18	Strong
Non-MKS Shared Services	MKS-OR02(17-18) - Food Safety	2017/18	Sound
Non-MKS Shared Services	MKS-OR06(17-18) - Parking Income	2017/18	Sound
Mid Kent HR	MKS-OR03(17-18) - HR Policy Compliance	2017/18	Sound
Mid Kent ICT	MKS-CG04(17-18) - IT Disaster Recovery	2017/18	Sound
Mid Kent Legal Services	MKS-OR05(17-18) - Legal Services	2017/18	Sound
Mid Kent HR	MKS-CF01(17-18) - Payroll	2017/18	Sound
Director of Mid Kent Services	MKS-OR04(17-18) - Land Charges	2017/18	Weak
SBC Contract Management	X19-IV03 - Procurement Fraud Risk Review	2018/19	N/A
SBC Democratic Services	S19-AR10 - Members' Allowances	2018/19	Strong
SBC Development Management	S19-AR03 - Conservation Planning	2018/19	Sound
SBC Finance	S19-AR08 - Insurance	2018/19	Strong
SBC Finance	S19-AR14 - Treasury Management	2018/19	Strong
SBC Housing	S19-AR13 - Temporary Accommodation	2018/19	Sound
SBC Licensing & Resilience	S19-AR09 - Licensing Compliance	2018/19	Sound
SBC Policy & Performance	X19-AR04 - General Data Protection Regulations	2018/19	N/A

MID KENT AUDIT

Service Area	Audit Project	Audit Year	Audit Rating
SBC Property Services	S19-AR01 - Asset Management	2018/19	Sound
SBC Regeneration & Economic Development	S19-AR12 - Sittingbourne Town Centre	2018/19	Sound
SBC Revenues & Benefits	S19-AR04 - Council Tax Reduction Scheme	2018/19	Sound
SBC Waste Management	S19-AR16 - Waste Income	2018/19	Sound
Non-MKS Shared Services	X19-AR07 - Licensing Administration	2018/19	Sound
Shared Revenues & Benefits	X19-AR10 - Revs & Bens Compliance Team	2018/19	Sound
Mid Kent HR	X19-AR01 - Absence Management	2018/19	Sound
Mid Kent ICT	X19-AR03 - Cyber Security	2018/19	Sound
Mid Kent HR	X19-IV02 - Payroll Fraud Risk Review	2018/19	N/A
SBC Development Management	S20-AR14 - Planning Enforcement	2019/20	Reporting
SBC Finance	X20-CON02 - Financial Resilience Index	2019/20	Reporting
SBC Property Services	S20-AR07 - Health & Safety	2019/20	Reporting
SBC Revenues & Benefits	S20-AR10 - Discretionary Housing Payments	2019/20	Sound
Non-MKS Shared Services	X20-AR02 - Civil Parking Enforcement	2019/20	Sound
Mid Kent HR	X20-AR05 - Recruitment	2019/20	Sound
Mid Kent Legal Services	S20-AR09 - Declarations of Interest	2019/20	Reporting

MID KENT AUDIT

Appendix III: Assurance Ratings

Assurance Ratings 2020/21 (unchanged since 2014/15)

Full Definition	Short Description
<p>Strong – Controls within the service are well designed and operating as intended, exposing the service to no uncontrolled risk. There will also often be elements of good practice or value for money efficiencies which may be instructive to other authorities. Reports with this rating will have few, if any, recommendations and those will generally be priority 4.</p>	<p>Service/system is performing well</p>
<p>Sound – Controls within the service are generally well designed and operated but there are some opportunities for improvement, particularly with regard to efficiency or to address less significant uncontrolled operational risks. Reports with this rating will have some priority 3 and 4 recommendations, and occasionally priority 2 recommendations where they do not speak to core elements of the service.</p>	<p>Service/system is operating effectively</p>
<p>Weak – Controls within the service have deficiencies in their design and/or operation that leave it exposed to uncontrolled operational risk and/or failure to achieve key service aims. Reports with this rating will have mainly priority 2 and 3 recommendations which will often describe weaknesses with core elements of the service.</p>	<p>Service/system requires support to consistently operate effectively</p>
<p>Poor – Controls within the service are deficient to the extent that the service is exposed to actual failure or significant risk and these failures and risks are likely to affect the Council as a whole. Reports with this rating will have priority 1 and/or a range of priority 2 recommendations which, taken together, will or are preventing from achieving its core objectives.</p>	<p>Service/system is not operating effectively</p>

MID KENT AUDIT

Recommendation Ratings 2019/20 (unchanged since 2014/15)

Priority 1 (Critical) – To address a finding which affects (negatively) the risk rating assigned to a Council strategic risk or seriously impairs its ability to achieve a key priority. Priority 1 recommendations are likely to require immediate remedial action. Priority 1 recommendations also describe actions the authority **must** take without delay.

Priority 2 (High) – To address a finding which impacts a strategic risk or key priority, which makes achievement of the Council's aims more challenging but not necessarily cause severe impediment. This would also normally be the priority assigned to recommendations that address a finding that the Council is in (actual or potential) breach of a legal responsibility, unless the consequences of non-compliance are severe. Priority 2 recommendations are likely to require remedial action at the next available opportunity, or as soon as is practical. Priority 2 recommendations also describe actions the authority **must** take.

Priority 3 (Medium) – To address a finding where the Council is in (actual or potential) breach of its own policy or a less prominent legal responsibility but does not impact directly on a strategic risk or key priority. There will often be mitigating controls that, at least to some extent, limit impact. Priority 3 recommendations are likely to require remedial action within six months to a year. Priority 3 recommendations describe actions the authority **should** take.

Priority 4 (Low) – To address a finding where the Council is in (actual or potential) breach of its own policy but no legal responsibility and where there is trivial, if any, impact on strategic risks or key priorities. There will usually be mitigating controls to limit impact. Priority 4 recommendations are likely to require remedial action within the year. Priority 4 recommendations generally describe actions the authority **could** take.

Advisory – We will include in the report notes drawn from our experience across the partner authorities where the service has opportunities to improve. These will be included for the service to consider and not be subject to formal follow up process.

Audit Committee Meeting	
Meeting Date	11 th March 2020
Report Title	Annual Risk Management Report 2019/20
Cabinet Member	Cllr Roger Truelove - Leader of the Council
SMT Lead	Nick Vickers – Chief Finance Officer
Head of Service	Russell Heppleston – Deputy Head of Audit Partnership
Lead Officer	Alison Blake – Audit Manager
Key Decision	No
Classification	Open
Recommendations	1. That the Audit Committee considers and provides comments on the operation of the risk management framework.

1 Purpose of Report and Executive Summary

- 1.1 The purpose of this report is to provide information to members of the Audit Committee on the Council’s risk management arrangements. As those charged with governance, the Committee must seek assurance over the effectiveness of the operation of the process.
- 1.2 The report attached in Appendix I provides an overview of the risk management process as operated throughout the year. To demonstrate this process in action information relating to the Council’s risk profile is included in the report.

2 Background

- 2.1 Since implementing the **risk management framework** in July 2015 we have been providing regular updates to Officers and Members on key risks, and the actions being taken to address and manage those risks. This includes all corporate risks and high level (red and black) risks.
- 2.2 We (Mid Kent Audit) have been working with the Council over the course of 2019/20 to update and maintain the comprehensive risk register. Including reviewing the corporate risks, and continued reporting and communication of key risk information. The most recent update was to Informal Cabinet in April 2019 and SMT in December 2020.
- 2.3 Throughout the year we have continued to work with the Council to create a positive risk culture, and ensure that the risk management process adds value. It

is appropriate that risk information is reported to Members, via Audit Committee. The attached report (Appendix I) is the fourth update report to this Committee and seeks to bring members up to date with the work undertaken during 2019/20.

3 Proposals

- 3.1 Effective risk management is a key component of sound governance. This Committee, as those charged with governance, must gain assurance that the Council is operating an effective risk management process, and that risks are being managed.
- 3.2 We therefore propose that the Committee notes the arrangements in place and provides comments on the operation of the risk management process.

4 Alternative Options

- 4.1 In order for any risk management process to be effective it is vital that risk information is reported, that risks are monitored and that action is taken to manage risks to an acceptable level. Reporting risks to Members is necessary to provide assurance that risks are being managed.
- 4.2 An alternative option would be to not report or monitor risks, but this would counter the effectiveness of the process, and would go against the terms of reference for this Committee.

5 Consultation Undertaken or Proposed

- 5.1 The risk management framework was designed through consultation with SMT and more broadly through consultation with Heads of Service.
- 5.2 All risk owners have been involved in the identification and assessment of the risks on the register.

6 Implications

Issue	Implications
Corporate Plan	Effective risk management is part of the Council's governance framework. The purpose of the risk management process is to ensure that key risks are identified and appropriately managed as the Council pursues its Corporate objectives.

Financial, Resource and Property	Investment in developing risk management arrangements are being met from existing resources within the Mid Kent Audit partnership. No implications identified at this stage.
Legal, Statutory and Procurement	None identified at this stage
Crime and Disorder	None identified at this stage
Environment and Climate/Ecological Emergency	None identified at this stage
Health and Wellbeing	None identified at this stage
Risk Management and Health and Safety	This report is about risk management. No H&S implications identified at this stage.
Equality and Diversity	None identified at this stage
Privacy and Data Protection	None identified at this stage

7 Appendices

7.1 The following documents are to be published with this report and form part of the report:

- Appendix I: : Annual Risk Management Report 2019/20

8 Background Papers

- Risk Management Framework

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MID KENT AUDIT

Annual Risk Management Report

Audit Committee

March 2020



Introduction

Effective risk management is a vital part of the Council's governance, and contributes greatly to the successful delivery of services and key priorities. Risk processes are how the Council identifies, quantifies and manages the risks it faces as it seeks to achieve its objectives.

The purpose of this report is to provide assurance to Members that the Council has in place effective risk management arrangements, and that risks identified through this process are managed, and monitored appropriately. This enables the Audit Committee to fulfil the responsibilities as set out in the Terms of Reference:

“To monitor the effective development and operation of risk management and corporate governance in the Council.”

Roles & Responsibilities

We (Mid Kent Audit) have lead responsibility for supporting risk management processes across the Council. Our role includes regular reporting to Officers and Members, through the Senior Management Team (SMT), Informal Cabinet and the Audit Committee. We also provide workshops and training, and facilitate the effective management of risks.

Having valuable and up to date risk information enables both Executive and oversight functions to happen effectively. Informal Cabinet has overall responsibility for risk management and will review the substance of individual risks to ensure that risk issues are appropriately monitored and addressed.

As those charged with governance and oversight the Audit Committee should seek assurance that the Council is operating an effective risk management process.

Risk Management Process

The **risk management framework** is the guide that sets out how the Council identifies, manages and monitors risks. The reviewed and updated framework was approved by SMT early in 2019. In summary, the risk management process for the Council can be broken down into the following key components, and a 1 page summary of the process is included in Appendix III:



All risks are recoded on the comprehensive risk register, and it is this register that is used to generate risk information across the Council.

We generally identify risks at two levels, at an operational level and at a corporate level:

Corporate level risks are more strategic in nature. They are the risks that could prevent the Council from achieving its ambitions and objectives.

Operational risks are principally identified as part of the service planning cycle each year. They are directly linked with the day to day operation of services. However, operational risks can nonetheless have potential for significant impact.

There is a direct link between these two levels of risks. This is because where an individual or group of operational risks start to have a significant impact on delivery of strategic objectives consideration is given to escalating the risk to a corporate level.

Risks are assessed on **impact** and **likelihood** (definitions attached in Appendix II). The same definitions and scales are used for all risk assessments in order to achieve consistency in approach, and allow for comparisons over the period.

- **Impact:** This is a consideration of how severely the Council would be affected if the risk was to materialise.
- **Likelihood:** This is a consideration of how likely it is that the risk will occur. In other words, the probability that it will materialise.

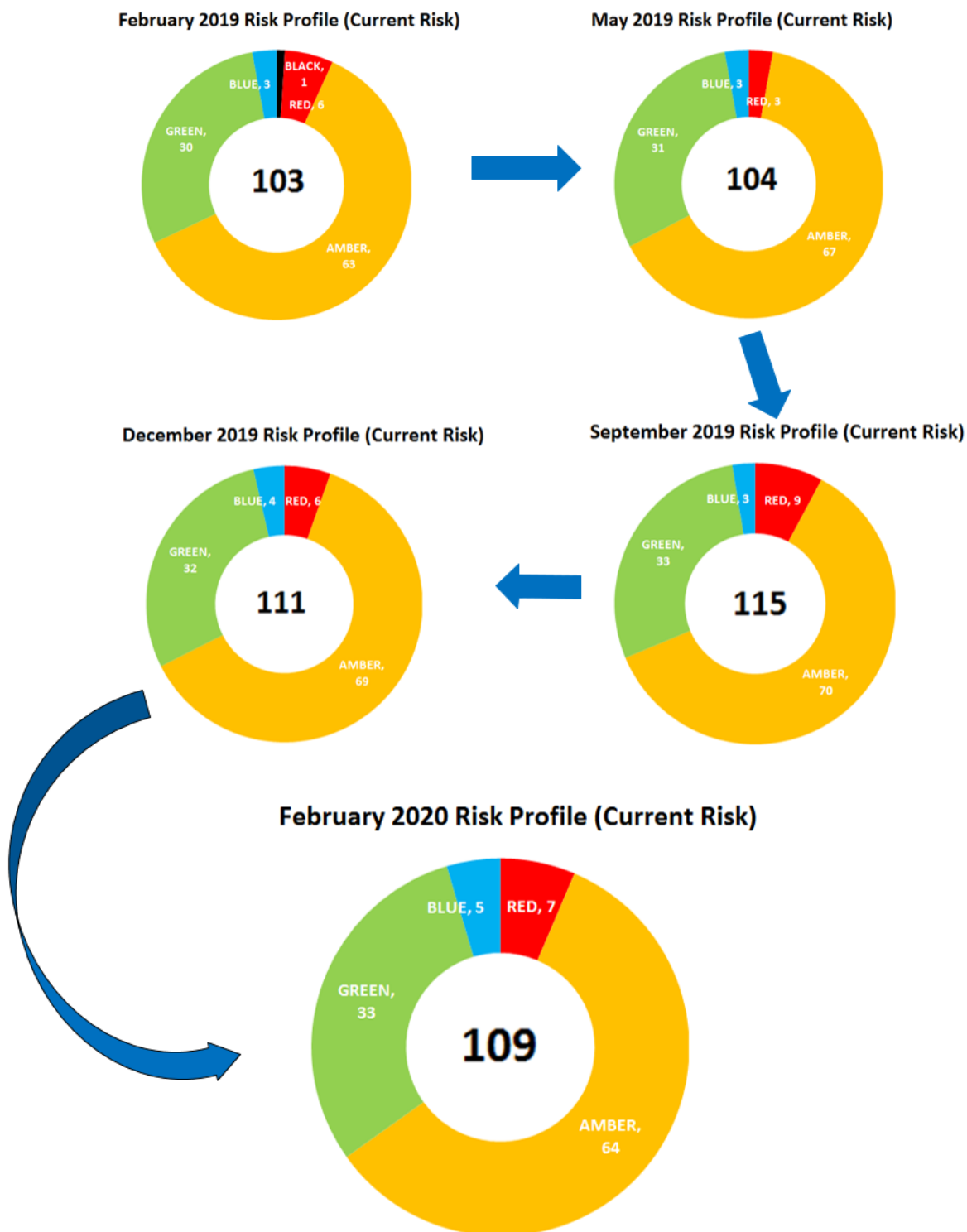
In order to understand the scale of risks the following guidance is available to risk owners when assessing their risks:

	Risk Rating	Guidance to Risk Owners
20-25	<p>Risks at this level sit above the tolerance of the Council and are of such magnitude that they form the Council's biggest risks.</p> <p>The Council is not willing to take risks at this level and action should be taken immediately to treat, transfer or terminate the risk.</p>	<p>Identify the actions and controls necessary to manage the risk down to an acceptable level. Report the risk to the Audit Team and Senior Manager.</p> <p>If necessary, steps will be taken to collectively review the risk and identify any other possible mitigation (such as additional controls).</p>
12-16	<p>These risks are within the upper limit of risk appetite. While these risks can be tolerated, controls should be identified to bring the risk down to a more manageable level where possible.</p> <p>Alternatively consideration can be given to transferring or terminating the risk.</p>	<p>Identify controls to treat the risk impact / likelihood and seek to bring the risk down to a more acceptable level.</p> <p>If unsure about ways to manage the risk, consult with the Internal Audit team.</p>
5-10	<p>These risks sit on the borders of the Council's risk appetite and so while they don't pose an immediate threat, they are still risks that should remain under review. If the impact or likelihood increases then risk owners should seek to manage the increase.</p>	<p>Keep these risks on the radar and update as and when changes are made, or if controls are implemented.</p> <p>Movement in risks should be monitored, for instance featuring as part of a standing management meeting agenda.</p>
3-4	<p>These are low level risks that could impede or hinder achievement of objectives. Due to the relative low level it is unlikely that additional controls will be identified to respond to the risk.</p>	<p>Keep these risks on your register and formally review at least once a year to make sure that the impact and likelihood continues to pose a low level.</p>
1-2	<p>Minor level risks with little consequence but not to be overlooked completely. They are enough of a risk to have been assessed through the process, but unlikely to prevent the achievement of objectives.</p>	<p>No actions required but keep the risk on your risk register and review annually as part of the service planning process.</p>

Risk Profile

The diagrams below illustrate how the risk profile of the Council (i.e. the actual number of risks on the register and their RAG rating) has changed throughout the year. This is made up of the Council's operational risks, and based on the **current** risk, i.e. the risk impact and likelihood considering any existing controls in place to manage the risk, but before any further planned controls are introduced.

The change in the overall risk profile of the Council demonstrates how action is taken to manage risks, to ensure the completeness of the risk register and to capture emerging risks.

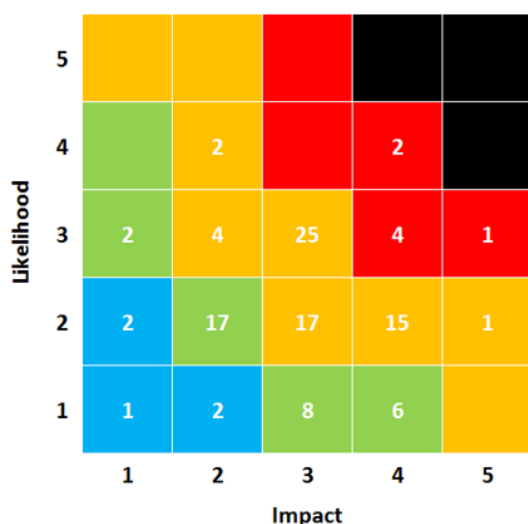


Operational risk registers are in place for each service (including relevant shared services) and, as demonstrated above, are regularly reviewed and updated. **Red** and above risks are reviewed quarterly and **Amber** risks six-monthly. All other risks are reviewed and updated as needed or at least annually. The last update was completed in February 2020 and a full review will be undertaken by May 2020.

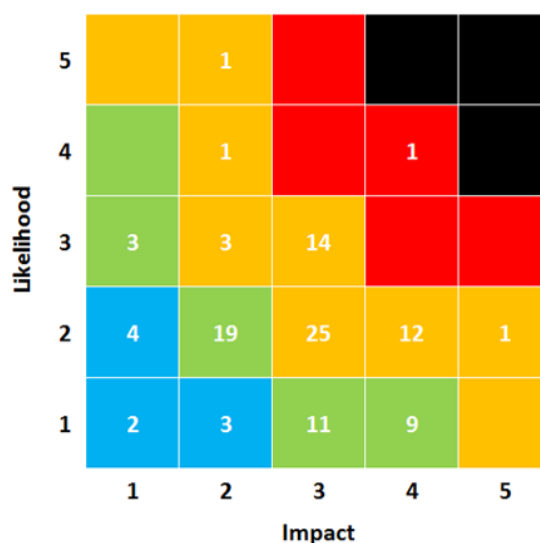
Inherent **Red** and above risks are monitored by SMT and reported to Informal Cabinet alongside the Corporate risks. Reports were taken to SMT in May 2019 and December 2019, and Informal Cabinet in April 2019.

The following risk matrices show the operational risk profile for the Council as at February 2020 (the **current** risk) and what the profile will look like if all planned controls are introduced (the **mitigated** risk) – i.e. what our risk profile could look like in the future.

February 2020 Risk Profile (Current Risk)



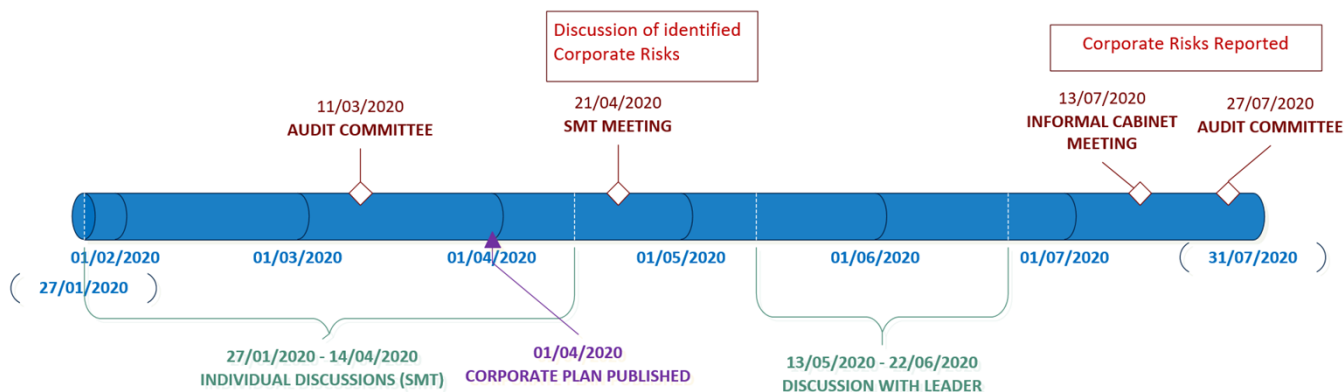
February 2020 Risk Profile (Mitigated Risk)



Corporate Risks

To be effective the Council’s corporate risks should reflect its priorities and ambitions. The development of new corporate priorities therefore provided an opportune time to identify emerging corporate risks, and to this end a workshop was held with SMT in August 2019. Following the publication of the consultation for the priorities a paper was taken to SMT, in January 2020, describing the outcomes of the workshop and how the corporate risks will be developed.

Work is now underway with SMT to build the corporate risk register and the following diagram outlines the timeline for this work:



To support Members in understanding the Council’s risk management processes, and interpreting reported information, a training session will be run in June 2020 – further details will be circulated nearer the time.

Next Steps

Risk management is a continuous process, and we will continue to build on and improve the arrangements to further strengthen the risk management process and develop a positive risk culture across the Council. In particular work is underway to obtain a risk management system to replace the current spreadsheet process. This will give us greater functionality in updating and reporting on risks and free up time to further develop other aspects of risk.

We have continued to receive a positive level of engagement and support from Senior Officers and Managers in the Council which has enabled the risk management process to develop and embed. So, we’d like to take this opportunity to thank officers for their continued work and support.

Definitions for Impact and Likelihood

Risks are assessed for impact and likelihood. So that we achieve a consistent level of understanding when assessing risks, the following definitions were agreed and have been used to inform the assessment of risks on the comprehensive risk register.

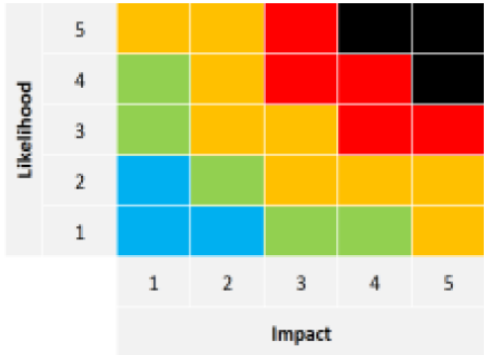
RISK IMPACT

Level	Service	Reputation	H&S	Legal	Financial	Environment
Catastrophic (5)	Ongoing failure to provide an adequate service	Perceived as a failing authority requiring intervention	Responsible for death	Litigation almost certain and difficult to defend Breaches of law punishable by imprisonment	Uncontrollable financial loss or overspend over £1.5m	Permanent, major environmental or public health damage
Major (4)	Failure to deliver Council priorities Poor Service, 5+ days disruption	Significant adverse national publicity	Fails to prevent death, causes extensive permanent injuries or long term sick	Litigation expected and uncertain if defensible Breaches of law punishable by significant fines	Financial loss or overspend greater than £100k	Long term major public health or environmental incident (1+ yrs)
Moderate (3)	Unsatisfactory performance Service disrupted 3-5 days	Adverse national publicity of significant adverse local publicity	Fails to prevent extensive permanent injuries or long term sick	Litigation expected but defensible Breaches of law punishable by fines	Financial loss or overspend greater than £50k	Medium term major public health or environmental incident (up to 1 yr)
Minor (2)	Marginal reduction in performance Service disrupted 1-2 days	Minor adverse local publicity	Medical treatment required Long term injuries or sickness	Complaint or litigation possible Breaches of regulations or standards	Financial loss or overspend greater than £20k	Short term public health or environmental incident (weeks)
Minimal (1)	No performance reduction Service disruption up to 1 day	Unlikely to cause adverse publicity	First aid level injuries	Unlikely to cause complaint Breaches of local procedures	Financial loss or overspend under £20k	Environmental incident with no lasting detrimental effect

RISK LIKELIHOOD

Level	Probability	Description
Almost Certain (5)	90% +	Without action is likely to occur; frequent similar occurrences in local government / Council history
Probable (4)	60% - 90%	Strong possibility; similar occurrences known often in local government / Council history
Possible (3)	40% - 60%	Might occur; similar occurrences experienced in local government / Council history
Unlikely (2)	10% - 40%	Not expected; rare but no unheard of occurrence in local government / Council history
Rare (1)	0% - 10%	Very unlikely to occur; no recent similar instances in local government / Council history

One Page Process Summary

Step 1 – Identify Risks	Step 2 – Evaluate Risks	Step 3 – Risk Response	Step 4 – Monitor & Review
<p>Best done in groups, by those responsible for delivery objectives.</p> <p>RISK is a <i>potential future</i> event that, if it materialises, has an <i>effect</i> on the achievement of our objectives.</p> <p>Consider both threats and opportunities.</p> <p>When to consider:</p> <ul style="list-style-type: none"> Setting business aims and objectives Service planning Target setting Partnerships & projects Options appraisal <p>Establish the risk owner.</p> <p>Document in the risk register.</p>	<p>Combination of the impact and likelihood of an event (the CURRENT RISK).</p> <p>Impact score is the highest from the different categories.</p> <p>Establish your key existing controls and whether they are managing the impact and/or likelihood of the risk.</p> <p>Scores can be depicted in the risk matrix:</p> 	<p>Black – Above our tolerance, immediate action and reporting to directors.</p> <p>Red – Outer limit of our appetite, immediate action.</p> <p>Amber – Medium risk, review existing controls.</p> <p>Green – Low risk, limited action, include in plans.</p> <p>Blue – Minimal risk, no action but annual review.</p> <p>Risk Response – 4Ts</p> <ul style="list-style-type: none"> Treat (i.e. apply controls) Tolerate (i.e. accept risk) Transfer (e.g. insurance / partnership) Terminate (i.e. stop activity) <p>After your response; where does the risk score now? (the MITIGATED RISK)</p>	<p>Completed risk registers returned to Mid Kent Audit.</p> <ul style="list-style-type: none"> Senior Management Team monthly monitoring of black risks. Quarterly reporting of all high level (black and red) risks. 6-monthly monitoring at Informal Cabinet. Annual monitoring of process by Audit Committee. <p>Mid Kent Audit facilitate the review and update of risk actions (as per your risk register) during the year for and high-level (red / black) risks.</p>

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Certification Report

Year ending 31 March 2019

Swale Borough Council
February 2020

Page 45



Contents

Your key Grant Thornton team members are:

Page 46

Darren Wells

Engagement Leader

T: 01293 554120

E: Darren.J.Wells@uk.gt.com

Trevor Greenlee

Engagement Manager

T: 01293 554071

E: Trevor.Greenlee@uk.gt.com

Section

1. Summary of Findings

Page

3

Appendices

A. Work performed 2018/19

5

B. Outcomes from testing

7

C. Fees

9

D. Action Plan

10

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Summary of Findings

Introduction

Certain claims and returns submitted by local authorities require auditor certification to help confirm the authority's entitlement to funding.

For 2018/19 the only claim requiring auditor certification at Swale Borough Council ('the Council') was the Council's claim for housing benefit subsidy.

This report summarises the outcomes from our certification work on the Council's housing benefit subsidy claim for 2018/19.

Approach and context to certification

We perform work under a framework for reporting accounts issued by the Department for Work and Pensions (DWP) in accordance with the International Standard on Related Services (ISRS) 4400 "Engagements to perform agreed-upon-procedures regarding financial information". Our engagement requires us to complete the work specified under the Housing Benefit (Subsidy) Assurance Process (HBAP) Modules 1, 2, 3, 5 and 6.

In 2018/19 the Council's draft claim was for housing benefit subsidy of £43.7m (2017/18, £51.2m).

Key messages

Our certification work identified one issue which required minor amendments to the claim form. There was no change to the total subsidy claimed.

Our testing for a sample of cases identified a small number of errors. Under the HBAP framework we extrapolated the potential impact of these errors on the overall claim and reported this to DWP using a qualification letter. The nature of the errors was such that there was no impact on total subsidy claimed.

Further information on the outcomes from our certification work is provided at Appendices A and B.

DWP has now settled the Council's claim without amendment to the total subsidy claimed.

Certification fees

Our fee for 2018/19 was £20,500 (2017/18 £23,626).

The way forward

The recommendations arising from our certification work are at Appendix D.

Acknowledgements

We would like to take this opportunity to thank officers for their assistance and co-operation with our 2018/19 certification work.

Grant Thornton UK LLP

February 2020

Appendices

Page 48

Appendix A: Work performed 2018/19

Claim or return	Comments
<p>Housing benefit subsidy claim</p> <p>Page 49</p>	<p>Overall approach</p> <p>The HBAP certification framework requires sample testing of benefit claims to confirm benefit has been awarded in accordance with regulations and correctly recorded for subsidy purposes. Two initial samples are tested (all transactions in year)</p> <ul style="list-style-type: none"> - 20 rent allowance cases - 20 rent rebate (tenants of non-HRA properties) cases. <p>Where errors are identified from this initial testing, and there is not enough information to agree a claim amendment or assess the impact of the error across the population as a whole, then additional testing is performed (either on a further sample of 40 cases, or on all relevant cases, depending on the number of cases where the error could have occurred) for the issue giving rise to the error.</p> <p>Under the HBAP framework auditors are also required to perform sample testing to cover previous year issues and confirm that these do not affect the current year's claim.</p> <p>Where the impact of errors can be quantified exactly then the claim is amended. Where the potential impact on subsidy can only be estimated or extrapolated then the issue is reported to DWP using a qualification letter.</p>

Appendix A: Work performed 2018/19 (cont.)

Claim or return	Comments
Housing benefit subsidy claim (continued) Page 50	<p>Claim Amendments</p> <p>In 2017/18 we identified one case where dependant's allowance had been incorrectly calculated. Given the error found in the previous year additional testing was performed on cases with dependant's allowance calculations in 2018/19. As there were under 100 (88) cases with dependant's allowance calculations in 2018/19 the HBAP framework requires all cases to be tested; as all cases are tested any errors can be addressed by a claim amendment rather than by an extrapolation reported to DWP. We identified one minor error where a claim amendment was required. There was no impact on total subsidy claimed.</p> <p>Outcomes from claims testing</p> <p>A summary of the outcomes from our 2018/19 testing of individual claims is included at Appendix B.</p> <p>(a) We identified a number of underpayments. We report these to DWP, but the errors have no impact for subsidy purposes as subsidy cannot be claimed for benefit which has not been awarded.</p> <p>(b) For errors where the impact on subsidy cannot be quantified exactly then we extrapolate the impact on the claim and report this to DWP using a qualification letter. It is for DWP to decide on any further action required.</p> <p>In 2018/19 we identified only two issues requiring extrapolations. In both cases the extrapolations increased the total for local authority overpayments, but as this total remained below a threshold set by DWP there was no potential impact on subsidy.</p> <p>Other issues</p> <p>The value in the 'in-year reconciliation' cell for each benefit type should agree with the value in the "total expenditure" cell. For rent allowance expenditure the values in these cells differed by £158. Officers investigated this issue but were unable to explain the difference.</p>

Appendix B: Outcomes from testing of benefit claims

	Cases tested	Errors identified	
Follow up testing was performed in the following areas to address issues arising from our 2017/18 certification work.			
2017/18 Follow up testing: Rent allowances			
Calculation errors relating to earned income	40	4	One error resulted in an overpayment of benefit and three errors in an underpayment. For the overpayment the impact was extrapolated and reported to DWP.
Calculation errors relating to extended payments	40	1	The error led to an underpayment of benefit.
2017/18 Follow up testing: Rent rebates (tenants of non-HRA properties)			
Errors where the authority had underclaimed subsidy because, although eligible rent exceeded the LHA cap, the authority had not applied the full LHA cap, or had used an amount lower than the full LHA cap in calculations.	40	0	
Calculation errors relating to earned income	40	1	The error led to an underpayment of benefit.
Calculation errors relating to dependant's allowance	88	3	As the population was under 100 cases all cases are tested. One error resulted in an overpayment of benefit and two errors in an underpayment. A claim amendment was made to correct the overpayment.

Appendix B: Outcomes from testing of benefit claims

	Initial testing: Errors identified	Additional testing sample	Additional testing: Errors identified	
2018/19 Initial testing: Rent Allowances				
Testing on an initial sample of 20 benefit cases identified the following errors;				
Page 52	1	40	1	One error resulted in an overpayment of benefit and one error in an underpayment. For the overpayment the impact was extrapolated and reported to DWP.
	1	40	0	The error led to an underpayment of benefit.
2018/19 Initial testing: Rent rebates (tenants of non-HRA properties)				
Testing on an initial sample of 20 benefit cases identified no errors.				

Appendix C: Fees

Claim or return	2017/18 fee	2018/19 fee
	£	£
Housing benefit subsidy claim	23,626	20,500
Total	23,626	20,500

Page 53

Appendix D: Action plan

Priority

High - Significant effect on arrangements

Medium – Some effect on arrangements

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
Page 54	Housing benefit subsidy scheme			
	1 Officers should consider the nature of the errors identified from certification testing and consider the need for any training or supervision to help reduce errors in future years.	Medium	Training will be carried out to help reduce errors in the future	Revenues and Benefits Manager
	2 Benefit records for individual claimants should be amended in the current year for all errors identified from 2018/19 certification testing.	Medium	All benefit records for individual claimants have been amended for all errors identified from 2018/19 certification testing.	Revenues and Benefits Manager



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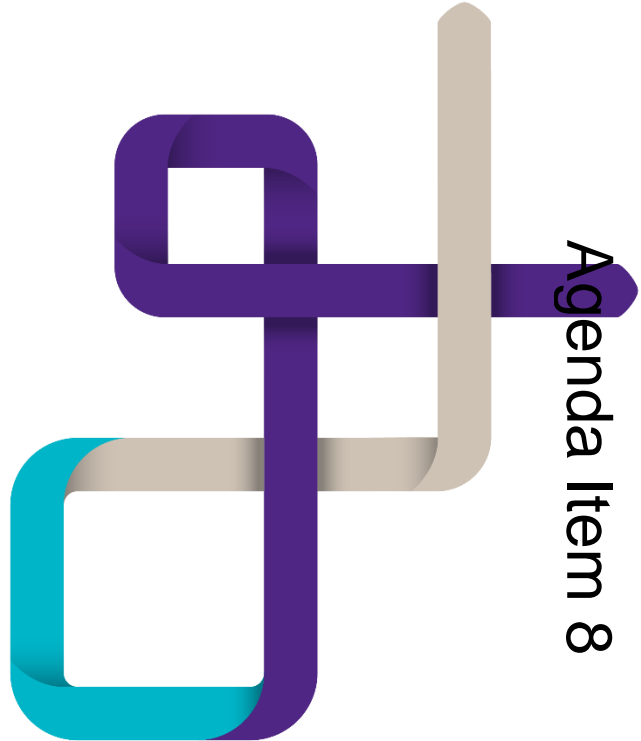
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External Audit Plan

Year ending 31 March 2020

Swale Borough Council
March 2020

Page 57



Contents



Your key Grant Thornton
team members are:

Page 58

Darren Wells

Key Audit Partner

T: 01293 554120

E: Darren.J.Wells@uk.gt.com

Trevor Greenlee

Engagement Manager

T: 01293 554071

E: Trevor.Greenlee@uk.gt.com

Section	Page
1. Introduction & headlines	3
2. Key matters impacting our audit	4
3. Significant risks identified	5
4. Other risks identified	7
5. Other matters	8
6. Materiality	9
7. Value for Money arrangements	10
8. Audit logistics and team	11
9. Audit fees	12
10. Independence & non-audit services	14
Appendix	
A. Audit quality – national context	15

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Swale Borough Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out *in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Swale Borough Council. We draw your attention to both of these documents on the [PSAA website](#).*

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Authority's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

Page 59	Significant risks	<p>Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:</p> <ul style="list-style-type: none">• Management override;• Valuation of land and buildings;• Valuation of net pension fund liability. <p>We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.</p>
	Materiality	<p>We have determined planning materiality to be £1,546,000 (PY £1,704,000), which equates to 2% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £78,000 (PY £85,000).</p>
	Value for Money arrangements	<p>Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks;</p> <ul style="list-style-type: none">• continuing to maintain an effective financial planning framework to manage the impact of reductions in government funding.
	Audit logistics	<p>Our interim visit will take place in March 2020 and our final visit will take place in June/July 2020. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.</p> <p>Our fee for the audit will be £54,269 (PY: £51,169) for the Authority, subject to the Authority meeting our requirements set out on page 11.</p>
	Independence	<p>We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.</p>

2. Key matters impacting our audit

Factors

The wider economy and financial pressures

Local authorities continue to face significant financial pressures associated with reductions in government funding and increasing cost pressures.

Your most recent reporting indicates that you are forecasting a small underspend against revenue budget for 2019/20, and have also agreed a balanced revenue budget for 2020/21. However, your medium term financial plan indicates that further action will be required to achieve a balanced position in future years.

Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

Implementation of IFRS 16 -Leases

International Financial Reporting Standard 16 Leases (IFRS 16) was published by the international Accounting standards (IASB) in January 2016. IFRS 16 is applicable for accounting periods beginning on or after 1 January 2019. For Local Authorities IFRS 16 (as adapted and interpreted by the Code) will be effective from 1 April 2020.

The current distinction between operating and finance leases will be removed for lessees next year (2020/21). All leases will therefore be recognised on the balance sheet as a right of use asset and a liability to make the lease payments. There are some exemptions for short term leases and for leases of low value assets.

In 2019/20 you will need a disclosure note in your financial statements which explains to the reader the impact of implementing IFRS 16.

Our response

We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.

As a firm we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with the Chief Finance Officer and is subject to PSAA agreement.

We will assess the adequacy of your disclosure regarding the financial impact of implementing IFRS 16 - Leases.

4. Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; • the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for the Council.</p>
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals; • identify and test unusual journal entries for appropriateness; • gain an understanding of the accounting estimates and critical judgements applied and consider their reasonableness; • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	<p>The Council revalues its land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value at the financial statements date. Investment properties are revalued annually at fair value.</p> <p>These valuations represent a significant estimate by management in the financial statements.</p>	<p>We will:</p> <ul style="list-style-type: none"> review management's processes and assumptions for the calculation of the estimate, the instructions issued to valuers and the scope of their work; consider the competence, expertise and objectivity of any valuation experts used.; write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met; review the information and assumptions used by the valuer to assess completeness and consistency with our understanding; test that revaluations made during the year are input correctly into the Council's asset register; evaluate the assumptions made by management for those property, plant and equipment assets not revalued during the year and how management have satisfied themselves that these are not materially different to current value.
Valuation of the pension fund net liability	<p>The valuation of the Council's net pension liability as reflected in its balance sheet represents a significant estimate in the financial statements.</p>	<p>We will:</p> <ul style="list-style-type: none"> update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

5. Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)	<p>The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments.</p> <p>In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate the processes the Authority has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements; • Assess the completeness of the disclosures made by the Authority in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC Local Authority Leasing Briefings.

6. Other matters

Other work

In addition to our responsibilities under the Code of Practice we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
 - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
 - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Council's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

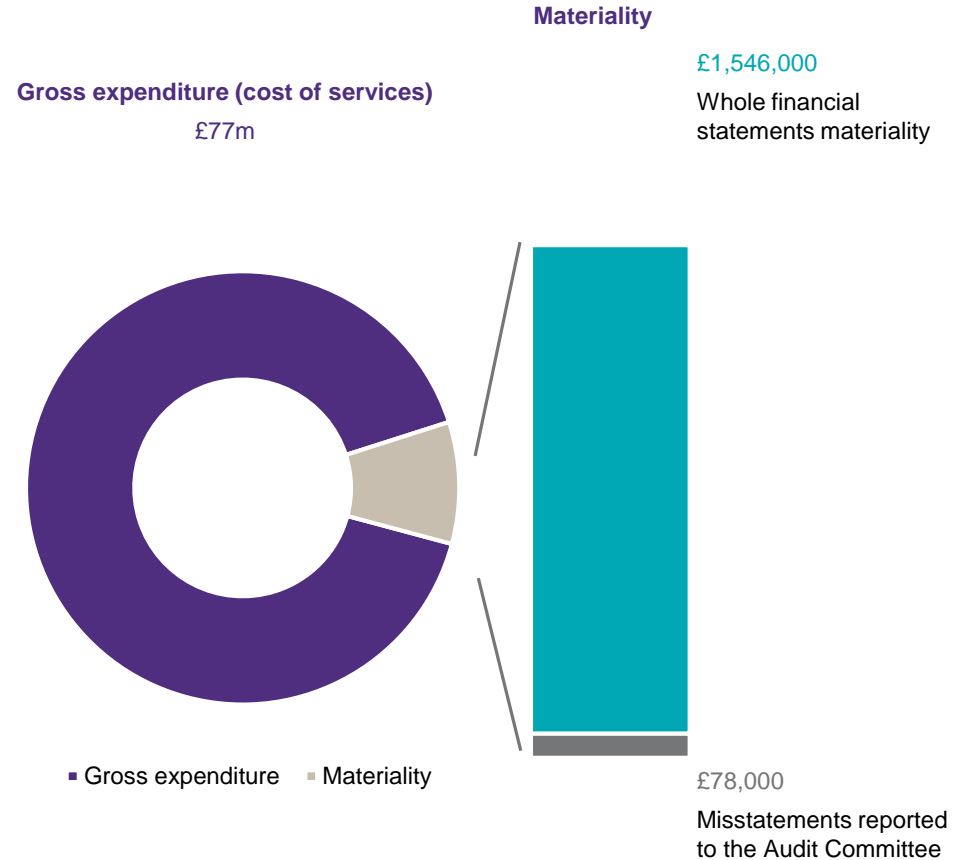
We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1,546,000 (PY £1,704,000) which equates to 2% of your prior year gross expenditure for the year.

We re-consider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

While our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £78,000 (PY £85,000).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



8. Value for Money arrangements

Background to our VFM approach

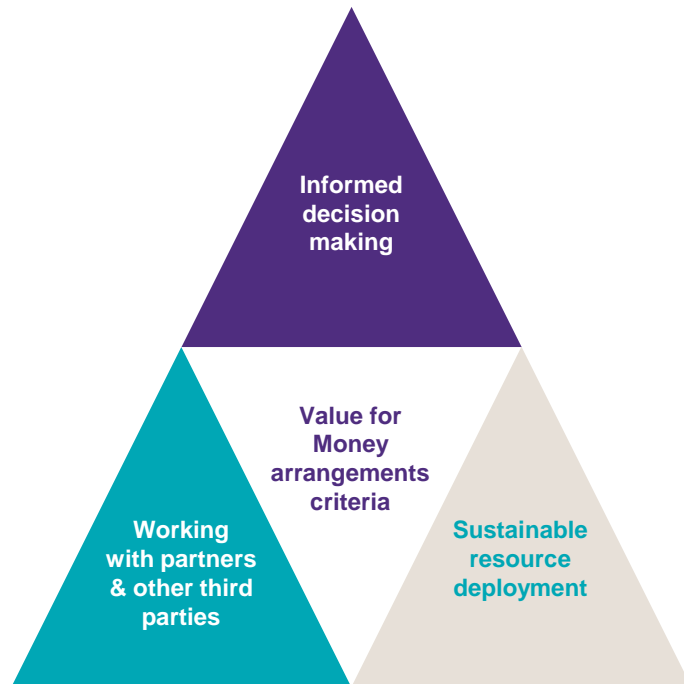
The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below:

Page 66



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.

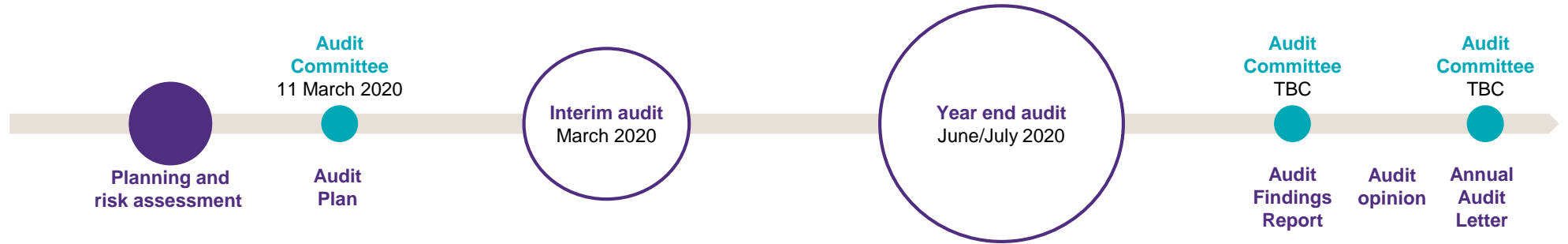
Financial sustainability

You continue to face significant financial pressures associated with reductions in government funding. You have taken a number of measures over recent years to address these issues, both to reduce costs and generate additional income, and have again agreed a balanced revenue budget for 2020/21. However, your medium term financial plan indicates that further action is required to achieve a balanced position in future years.

The continued strength of your financial planning framework is key to maintaining a sustainable financial position whilst delivering your key objectives over the medium term.

We will update our understanding of your medium term financial plan and review the supporting information trails.

9. Audit logistics & team



Darren Wells, Key Audit Partner



Trevor Greenlee, Audit Manager

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

10. Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Chief Finance Officer and is subject to PSAA agreement.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
Council Audit	£60,739	£51,169	£54,269

Assumptions:

In setting the above fees, we have assumed that the Authority will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards:

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

Audit fee variations – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	46,769	
Raising the bar	2,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	1,750	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	1,750	We have increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.
New standards/developments	1,500	You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. This year we will be responding to the introduction of IFRS16. IFRS16 requires a leased asset, previously accounted for as an operating lease off balance sheet, to be recognised as a 'right of use' asset with a corresponding liability on the balance sheet from 1 April 2020. There is a requirement, under IAS8, to disclose the expected impact of this change in accounting treatment in the 2019/20 financial statements.
Revised scale fee (to be approved by PSAA)	54,269	

11. Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified.

Service	£	Threats	Safeguards
Audit related:			
Certification of Housing Benefit Subsidy claim	TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work in 2018/19 was £20,500 in comparison to the total fee for the audit of £51,169, and in particular relative to Grant Thornton UK LLP's turnover overall. Further it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related:			
None			

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

The firm is committed to improving our audit quality – please see our transparency report - <https://www.grantthornton.ie/about/transparency-report/>

Appendices

A. Audit Quality – national context

Page 71

Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.

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